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**HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY****COMBINED FINANCIAL STATEMENTS****JUNE 30, 2002**

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1/15/03



**HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY**

**COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2002**



**HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
Hammond-Tangipahoa Home Mortgage Authority  
Hammond, Louisiana

We have audited the accompanying combined financial statements of the Hammond-Tangipahoa Home Mortgage Authority as of and for the year ended June 30, 2002, as set forth in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hammond-Tangipahoa Home Mortgage Authority as of June 30, 2002, and its results of operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2002 on our consideration of the Hammond-Tangipahoa Home Mortgage Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
December 6, 2002

**HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY**  
**COMBINED BALANCE SHEET**  
**JUNE 30, 2002**  
**(WITH COMPARATIVE MEMORANDUM TOTALS FOR JUNE 30, 2001)**

	<b><u>ASSETS</u></b>				
	General Fund	1999 A & B Mortgage Revenue Bond Fund	2001 A & B Mortgage Revenue Bond Fund	Combined Totals	
				2002	2001
				<u>Memorandum Only</u>	
Cash and cash equivalents	\$ 136,821	\$ 3,430	\$ 24,097	\$ 164,348	\$ 176,963
Certificate of deposit	98,576	-	-	98,576	93,711
Investments	655,891	56,766	3,855,974	4,568,631	5,189,260
Securitized mortgage loans	-	2,519,700	-	2,519,700	2,179,840
Accrued interest receivable	4,336	14,031	-	18,367	66,980
Deferred financing costs	-	71,255	109,683	180,938	194,792
Total Assets	<u>\$ 895,624</u>	<u>\$ 2,665,182</u>	<u>\$ 3,989,754</u>	<u>\$ 7,550,560</u>	<u>\$ 7,901,546</u>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>					
Accrued interest payable	-	23,533	13,598	37,131	63,944
Bonds payable	-	2,281,599	3,498,391	5,779,990	6,142,401
Total Liabilities	-	2,305,132	3,511,989	5,817,121	6,206,345
Fund Balance	895,624	360,050	477,765	1,733,439	1,695,201
Total Liabilities and Fund Balance	<u>\$ 895,624</u>	<u>\$ 2,665,182</u>	<u>\$ 3,989,754</u>	<u>\$ 7,550,560</u>	<u>\$ 7,901,546</u>

The accompanying notes are an integral part of this financial statement.



**HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY**  
**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2002**  
**(WITH COMPARATIVE MEMORANDUM TOTALS FOR JUNE 30, 2001)**

	General Fund	1999 A & B Mortgage Revenue Bond Fund	2001 A & B Mortgage Revenue Bond Fund	Combined Totals	
				2002	2001
				Memorandum Only	
<b><u>REVENUES</u></b>					
Mortgage loan income:					
Interest earned	\$ -	\$ 164,437	\$ -	\$ 164,437	\$ 96,603
Change in market value-securitized loans	-	77,805	-	77,805	(9,233)
Investment income	33,411	87,744	126,765	247,920	401,074
Other income	4,317	-	18,375	22,692	2,827
Total revenues	<u>37,728</u>	<u>329,986</u>	<u>145,140</u>	<u>512,854</u>	<u>491,271</u>
<b><u>EXPENSES AND LOSSES</u></b>					
Interest	-	237,251	155,883	393,134	396,324
Amortization of deferred financing costs	-	3,078	4,093	7,171	8,087
Professional and administrative fees	61,371	-	-	61,371	45,566
Other operating expenses	6,643	4,154	2,143	12,940	16,769
Total expenses	<u>68,014</u>	<u>244,483</u>	<u>162,119</u>	<u>474,616</u>	<u>466,746</u>
Net Income (Loss)	(30,286)	85,503	(16,979)	38,238	24,525
<b><u>FUND BALANCE - beginning of year</u></b>	273,656	1,421,545	-	1,695,201	1,670,676
Residual Equity Transfers	<u>652,254</u>	<u>(1,146,998)</u>	<u>494,744</u>	<u>-</u>	<u>-</u>
<b><u>FUND BALANCE - end of year</u></b>	\$ 895,624	\$ 360,050	\$ 477,765	\$ 1,733,439	\$ 1,695,201

The accompanying notes are an integral part of this financial statement.



**HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY**  
**COMBINED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2002**  
**(WITH COMPARATIVE MEMORANDUM TOTALS FOR JUNE 30, 2001)**

**Page 1 of 2**

	General Fund	1999 A & B Mortgage Revenue Bond Fund	2001 A & B Mortgage Revenue Bond Fund	<u>Combined Totals</u>	
				2002	2001
				<u>Memorandum Only</u>	
<b><u>CASH FLOWS FROM</u></b>					
<b><u>OPERATING ACTIVITIES:</u></b>					
Net Income (Loss)	\$ (30,286)	\$ 85,503	\$ (16,979)	\$ 38,238	\$ 24,525
Adjustments to reconcile excess revenues over expenses to net cash provided by (used in) operating activities:					
Amortization of mortgage loan premium	-	(233)	-	(233)	-
Amortization of deferred financing costs	-	3,078	4,093	7,171	8,087
Change in unrealized losses on securites	-	(77,805)	-	(77,805)	9,233
Amortization of deferred losses on bonds	-	12,659	10,389	23,048	12,659
Mortgage loans purchased	-	(344,591)	-	(344,591)	(1,561,972)
Mortgage loan principal payments received	-	82,768	-	82,768	21,224
Change in:					
Accrued interest receivable	596	48,017	-	48,613	(25,738)
Accrued interest payable	-	(40,411)	13,598	(26,813)	-
Net cash provided by (used in) operating activities	<u>(29,690)</u>	<u>(231,015)</u>	<u>11,101</u>	<u>(249,604)</u>	<u>(1,511,982)</u>
<b><u>CASH FLOWS FROM</u></b>					
<b><u>INVESTING ACTIVITIES:</u></b>					
Investments sold	93,711	5,414,950	28,526	5,537,187	1,658,056
Investments purchased	<u>(754,467)</u>	<u>(282,455)</u>	<u>(3,884,500)</u>	<u>(4,921,422)</u>	<u>(196,747)</u>
Net cash provided by (used in) investing activities	<u>(660,756)</u>	<u>5,132,495</u>	<u>(3,855,974)</u>	<u>615,765</u>	<u>1,461,309</u>

The accompanying notes are an integral part of this financial statement.



**HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY**  
**COMBINED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2002**  
**(WITH COMPARATIVE MEMORANDUM TOTALS FOR JUNE 30, 2001)**

**Page 2 of 2**

	General Fund	1999 A & B Mortgage Revenue Bond Fund	2001 A & B Mortgage Revenue Bond Fund	Combined Total	
				2002	2001
				Memorandum Only	
<b><u>CASH FLOWS FROM CAPITAL</u></b>					
<b><u>FINANCING ACTIVITIES:</u></b>					
Transfers between funds	\$ 652,254	\$ (960,000)	\$ 307,746	\$ -	\$ -
Issuance of bonds payable	-	-	3,675,000	3,675,000	-
Costs of issuance	-	-	(113,776)	(113,776)	-
Retirement of bonds payable	-	(3,940,000)	-	(3,940,000)	-
Net cash provided by (used in) financing activities	652,254	(4,900,000)	3,868,970	(378,776)	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(38,192)	1,480	24,097	(12,615)	(50,673)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	175,013	1,950	-	176,963	227,636
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 136,821</u>	<u>\$ 3,430</u>	<u>\$ 24,097</u>	<u>\$ 164,348</u>	<u>\$ 176,963</u>
<b><u>Supplemental Cash Flow Information</u></b>					
Cash paid for interest	<u>\$ -</u>	<u>\$ 265,002</u>	<u>\$ 131,791</u>	<u>\$ 396,793</u>	<u>\$ 383,665</u>
Non-Cash Activity:					
Transfer of deferred loss between funds	<u>\$ -</u>	<u>\$ (186,998)</u>	<u>\$ 186,998</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this financial statement.





# HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY

## NOTES TO COMBINED FINANCIAL STATEMENTS

### **1. Organization of Authority**

The Hammond-Tangipahoa Home Mortgage Authority (the Authority) is a public trust created through a Trust Indenture dated February 20, 1979. The Authority's primary purpose is to provide funds to enable qualifying low and moderate income persons to purchase or, under certain circumstances, improve single unit, owner-occupied residences in the Parish of Tangipahoa, Louisiana. The Authority achieves this purpose by purchasing qualifying mortgage loans made to such persons by participating mortgage lenders.

The Authority uses the proceeds of issuance of bonds payable to fund the purchase of mortgage loans or GNMA and FNMA certificates which are backed by qualifying mortgage loans. This practice is carried out through the creation of programs (MRB programs) which are periodically sponsored by the Authority, based upon the housing demand of the geographic region. The bonds issued by the Authority are limited obligations of the Authority, payable only from revenues and receipts derived from the mortgage loans and other assets held under and pursuant to the trust indenture.

The Authority is managed by a board of trustees appointed by the City Council of Hammond, Louisiana. Financial Consulting Services, Inc. serves as mortgage loan administrator and Bank of New York serves as trustee of the authority.

### **2. Significant Accounting Policies**

#### *Financial Reporting Entity*

GASB Statement 14 establishes criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Authority is considered a *primary government*, since it is a special purpose government that has a separate governing body, is legally separate, and is fiscally independent of other state or local governments. The Authority also has no *component units*, defined by GASB Statement 14 as other legally separate organizations for which the Authority members are financially accountable.

#### *Basis of Accounting and Reporting*

The Authority complies with accounting principles generally accepted in the United States of America (GAAP) by applying all relevant Governmental Accounting Standards Board (GASB) pronouncements. As the Authority and its mortgage revenue bond program are considered to be proprietary fund types, the Authority also applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Proprietary fund types are used to account for governmental activities that are similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. The accounting principles generally accepted in the United States of America (GAAP) used for proprietary funds are generally those applicable to similar businesses in the private sector (accrual basis of accounting). Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized when incurred.

## HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY

### NOTES TO COMBINED FINANCIAL STATEMENTS

#### 2. Significant Accounting Policies (continued)

##### *Basis of Accounting and Reporting* (continued)

The following funds are maintained by the Authority in accordance with the authorizing legislation and bond indentures:

##### General Fund

This fund provides for the accounting of general and administrative expenses of the Authority, any allowable transfers from other funds, investment interest income, and various types of fees. Assets of this fund are generally unrestricted and may be utilized for any lawful purpose of the Authority.

##### Mortgage Revenue Bond Funds (MRB Programs)

These funds have been established to account for the various trust accounts created under trust indentures of MRB programs. The various accounts within the funds provide for the custody of assets and the payment of the debt service requirements and are aggregated in the accompanying combined financial statements.

The assets of the accounts under the indenture are restricted, consequently, the amounts shown in the total "memorandum only" column are presented only for analytical purposes and totals of the accounts do not indicate that the combined assets are available in any manner other than that provided for in the trust indentures.

##### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### *Investment Securities and Securitized Mortgage Loans*

Investment securities and securitized mortgage loans are stated at fair value based on quoted market prices. The change in unrealized gain or loss is recognized as a component of income. Amortization of premium and accretion of discount are computed on a method that approximates the interest method over the life of each security.

##### *Deferred Loss on Refunding*

The Authority accounts for debt refundings in accordance with GASB No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. In accordance with this statement, gains and losses that result from debt refundings are deferred and amortized over the life of the new debt or the retired debt, whichever is the shorter period, using a method that approximates the interest method.

## **HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

#### **2. Significant Accounting Policies** (continued)

##### *Deferred Bond Issuance Costs*

Deferred bond issuance costs, including the underwriters' discount on the sale of the bonds payable, are amortized on a method that approximates the interest method over the estimated lives of the related bonds payable.

##### *Bonds Payable*

Bonds payable are stated net of the unamortized discount or premiums which is amortized on a method that approximates the interest method over the estimated lives of the bond.

#### **3. Cash and Cash Equivalents**

For reporting purposes, cash and cash equivalents include demand deposits at financial institutions, mutual funds, and all highly liquid investments with a maturity of three months or less. Cash and cash equivalents are stated at cost which approximates market value. Permissible types of cash instruments for the 1999 A and B and the 2001 A and B Mortgage Revenue Bond Funds (MRB programs) are stipulated in the respective trust indentures. State statutes set forth the permissible types of cash instruments for the general fund. Under the statutes, the Authority may deposit funds in state banks organized under the laws of Louisiana and national banks having their principal offices in Louisiana. At June 30, 2002, the Authority had bank deposits with aggregate carrying amounts of \$137,945 and bank balance of \$141,067. All bank balances were covered under FDIC insurance.

#### **4. Investments and Securitized Mortgage Loans**

The Authority's investments and securitized program loans are categorized to give an indication of the level of custodial credit risk assumed by the Authority at June 30, 2002. The categories are described as follows: Category 1 – insured or registered, or securities held by the Authority or its agent in the Authority's name; Category 2 – uninsured and unregistered, with securities held by the counterparty's trust departments or agent in the Authority's name; or Category 3 – uninsured and unregistered with securities held by the counterparty or by its trust department or by its agent not in the Authority's name. The GIC's and money market funds are not classified in categories of credit risk, because they are direct contractual investments and are not securities.



**HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

4. **Investments and Securitized Mortgage Loans** (continued)

<b><u>June 30, 2002</u></b>	<b><u>Category</u></b>			<b><u>Total</u></b>
	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	
Municipal Securities	\$ 655,891	\$ -	\$ -	\$ 655,891
Program Mortgage Loans Securitized	-	-	2,519,700	2,519,700
	<u>\$ 655,891</u>	<u>\$ -</u>	<u>\$ 2,519,700</u>	3,175,591
Guaranteed investment contracts held by Trustee				<u>3,912,740</u>
Total investments				<u>\$ 7,088,331</u>

Investment securities and program loans are reported in the financial statements as:

	<b><u>General Fund</u></b>	<b><u>1999 A &amp; B MRB Fund</u></b>	<b><u>2001 A &amp; B MRB Fund</u></b>	<b><u>Total</u></b>
Investments	\$ 655,891	\$ 56,766	\$3,855,974	\$ 4,568,631
Securitized mortgage loans	-	2,519,700	-	2,519,700
	<u>\$ 655,891</u>	<u>\$ 2,576,466</u>	<u>\$3,855,974</u>	<u>\$ 7,088,331</u>

The investment contracts owned by the 1999 A & B and the 2001 A & B Mortgage Revenue Bond Programs represent deposit(s) in a financial institution with a guaranteed interest rate over the life of the related bonds outstanding. The investment contract is unsecured and redemption of the investment depends solely on the financial condition of the contract provider. The investment contracts have no secondary market and their fair value is considered to be the same as cost.

The various loans of the 1999 A & B MRB programs have been pooled and securitized into GNMA and FNMA securities. These securities bear pass-through rates of 6.85% - 6.45%, and are guaranteed as to timely payment of principal and interest by the Government National Mortgage Association and Federal National Mortgage Association.

The underlying loans backing the GNMA and FNMA securities are collateralized by mortgages on single unit, owner-occupied residences located in the Parish of Tangipahoa, Louisiana. The loans, which have scheduled maturities of approximately 30 years, are serviced by a master servicer.



## HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY

### NOTES TO COMBINED FINANCIAL STATEMENTS

#### **5. Bonds Payable**

The Authority issues revenue bonds to assist in the financing of housing needs in the Parish of Tangipahoa, State of Louisiana. The bonds are limited obligations of the Authority, payable only from the income, revenues and receipts derived from the mortgage loans and other investments held under and pursuant to the trust indentures and pledged therefore. The issuance of debt for the financing of projects by the Authority is subject to the approval of the Louisiana State Bond Commission. Bonds are issued under various bond resolutions adopted by the Authority to provide financing for qualified single family residences.

At June 30, 2002, bonds payable outstanding were as follows:

	<u>Coupon Rate</u>	<u>Face Amount</u>	<u>Unamortized Deferred Loss on Refunding</u>	<u>Carrying Amount</u>
<u>Series 1999 A:</u>				
Serial Bonds	4.5%-5.0%	\$ 170,000	\$ -	\$ 170,000
Term Bonds, due 5/1/2020	5.9%	775,000	-	775,000
Term Bonds, due 11/1/2031	6.0%	965,000	-	965,000
<u>Series 1999 B Taxable:</u>				
Term Bonds, due 11/1/2030	7.35%	400,000	( 28,401)	371,599
<u>Series 2001 A:</u>				
Term Bonds, due 8/1/2031	4.0%	2,940,000	( 176,609)	2,763,391
<u>Series 2001 B Taxable:</u>				
Term Bonds, due 11/1/2030	6.2%	735,000	-	735,000
		<u>\$ 5,985,000</u>	<u>(\$ 205,010)</u>	<u>\$ 5,779,990</u>

The Series 1999 A & B bonds pay interest semi-annually, on May 1 and November 1. The 1999 A Serial bonds mature serially, beginning November 1, 2001 through November 1, 2006. The term bonds have scheduled sinking fund requirements which begin in November 2006. The Series 2001 A & B bonds pay interest monthly. In accordance with the mandatory redemption provisions of the trust indenture, all bonds are subject to optional redemption prior to their maturity. Such redemptions may occur as a result of mortgage loan prepayments or other conditions related to mortgage loan demand. Because of fluctuations in the loan demand, these programs and the bonds have an expected life of ten to twelve years, well below the terms stated in the bond documents.

The debt service requirements during the five years ending June 30, 2007 and thereafter based upon the stated terms of the bond documents are as follows:

<u>Ending June 30,</u>	<u>Principal</u>	<u>Estimated Interest</u>	<u>Total</u>
2003	\$ 30,000	\$ 357,000	\$ 387,000
2004	35,000	355,000	390,000
2005	35,000	353,000	388,000
2006	35,000	350,000	385,000
2007	35,000	348,000	383,000
Years thereafter	<u>5,815,000</u>	<u>8,185,000</u>	<u>14,000,000</u>
	<u>\$ 5,985,000</u>	<u>\$ 9,948,000</u>	<u>\$ 15,933,000</u>





## **HAMMOND-TANGIPAHOA HOME MORTGAGE AUTHORITY**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

#### **6. Defeased Bonds**

On August 30, 1990, the Authority irrevocably placed into trust an amount of funds sufficient for payment of the Single Family Mortgage Revenue Bonds, 1979 Series A bonds. As a result of this defeasance, these bonds have been removed from the Authority's financial statements. At June 30, 2002, the balance of the defeased bonds outstanding was \$8,155,000.

On August 18, 1999, the Authority issued the 1999 Series A and Series B (refunding) mortgage revenue bonds, with aggregate face values of \$5,000,000 and \$1,250,000, respectively. Concurrently, the Authority irrevocably placed cash and U. S. Government obligations in trust to provide sufficient payment to defease the Series 1990 A and B bonds outstanding, and accrued interest payable at that date. Funding for the defeasance was provided from proceeds of the sale of the mortgage loan portfolio which secured the bonds, and from proceeds of the issuance of the 1999 Series B (refunding) bonds. At June 30, 2002, the balance of the defeased Series 1990 A and B bonds outstanding was \$500,000. As a result of the defeasance, the 1990 A & B bonds and the related pledged assets have been removed from the Authority's financial statements.

#### **7. Board of Trustees Expenses**

The appointed members of the Authority's Board of Trustees receive a per diem payment for meetings attended and services rendered, and are also reimbursed for their actual expenses incurred in the performance of their duties as Trustees. For the year ended June 30, 2002, the following per diem payments were made to the members of the Authority's Board and are included in legal and administrative expenses:

Stan Dameron	\$ 350
Sandy Davis	300
Andrew Gasaway	350
Rodney Cashe	200
	<u>\$ 1,200</u>

#### **8. Conduit Debt Obligations**

The Authority, from time to time, issues revenue bonds to provide financing assistance for other local governmental entities. Such bonds are secured by the property or other assets financed and are payable solely from the revenues generated from those assets. The Authority is not obligated in any manner for repayment of the bonds, and accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2000 conduit debt obligations outstanding consisted of the Southeastern Louisiana University Facilities Project, Series 1998, in the face amount of 8,650,000. However, during the year ended June 30, 2001, these bonds were defeased by irrevocably placing into trust an amount of cash and U.S. Government Obligations sufficient to retire the bonds, with interest through the scheduled call dates.



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees  
Hammond-Tangipahoa Home Mortgage Authority  
Hammond, Louisiana

We have audited the combined financial statements of the Hammond-Tangipahoa Home Mortgage Authority as of and for the year ended June 30, 2002, and have issued our report thereon dated December 6, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hammond-Tangipahoa Home Mortgage Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of possible noncompliance that is required to be reported under *Government Auditing Standards*:

Condition and Criteria: – Louisiana Revised Statute 33:295 sets forth the types of investment instruments in which local governments and boards may invest. Those allowed investments generally consist of U.S. Treasury and U.S. agency securities, certificates of deposit in eligible banks and guaranteed investment contracts. The Authority's general fund holds an investment in a bond issued by the Louisiana Housing Finance Agency, which is not of a type specified by the statute. The carrying amount of that bond as of June 30, 2002 was \$655,890.

Effect: The Authority may be in violation of the aforementioned statute. However, due to the fact that the bonds in question are secured by assets held in trust which include pooled mortgage certificates guaranteed by GNMA and FNMA, the bonds could be considered to be indirectly secured by a federal agency.

Recommendation: The Authority should obtain an opinion as to the allowability of the investment. Absent an opinion that the LHFA bond is an allowable investment, then the Authority should divest itself of the bonds and invest the funds in an investment type specified by the statute.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hammond-Tangipahoa Home Mortgage Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated December 6, 2002.

This report is intended for the information of the Authority's management and the Louisiana Legislative Auditor, and it is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite & Netherwill*

Baton Rouge, Louisiana  
December 6, 2002







**Postlethwaite & Netterville**

A Professional Accounting Corporation  
Associated Offices in Principal Cities of the United States  
www.pncpa.com

December 6, 2002

To the Board of Trustees  
Hammond – Tangipahoa Home Mortgage Authority  
Hammond, Louisiana

In planning and performing our audit of the financial statements of the Hammond – Tangipahoa Home Mortgage Authority for the year ended June 30, 2002, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that represent opportunities for strengthening internal control and operating efficiency. The paragraphs below summarize our comments and suggestions regarding these matters. This letter does not affect our report dated December 6, 2002 on the financial statements of the Hammond – Tangipahoa Home Mortgage Authority.

Contracted Administration Services

The Authority has no employees and as such, much of the Authority's business is overseen and conducted by a contracted administrator. The administrator is paid a retainer fee plus certain amounts as reimbursement for expenses. The agreement under which the administrator performs these services is rather informal; however, the relationship has been accepted by the board if not by official motion, then through general awareness and through board review of payments to the administrator. We recommend that the Authority formalize this relationship by executing an agreement with the administrator which sets forth the duties and responsibilities of the administrator and a fair compensation for these services. The agreement should be approved by the Board of Commissioners. Additionally, all amounts paid as reimbursement of expenses should be supported by actual invoices from the vendor which supplied the service.

Investment Policy

In our consideration of internal controls over investments, we noticed that the Authority does not have a formalized, written investment policy. We recommend that an investment policy be adopted, and that the policy be compliant with applicable state statutes. Adoption of such a policy should establish, for the current as well as future boards, the various aspects of the investing process, including (but not limited to): necessary approval levels, the types of investments allowed, and the limits of amounts in certain issuers or investment types.

We have already discussed these comments and suggestions with certain members of management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations. We would also like to thank the Board for this opportunity to serve as the Authority's auditors and for their patience and cooperation with us during the performance of the audit.

*Postlethwaite & Netterville*

# Hammond Tangipahoa Mortgage Authority

P.O. Box 1004

Amite, LA 70422

Phone (985) 748-4758

December 16, 2002

Postlewaith & Netterville  
Certified Public Accountants  
8550 United Plaza Boulevard, Ste 1001  
Baton Rouge, LA 70809

Re: *Corrective Action Plan - Audit, year end 6/30/02*

Dear Auditors:

*The authority has reviewed your comments and suggestions for HTHMA for the audit year 2002-2003. The Authority agree these suggestions are sound and should be implemented immediately. To that effect a contract between the Authority and Attorney Reginald McIntyre, Administrator is being drawn up. The contract will specifically set out the administrator's duties and responsibilities and the fee to be paid for these services. Any additional expenses reimbursed will be supported by vendor invoices.*

*The board will also agree to adopting a formal investment policy that is in compliance with applicable state statutes. As regards the possible current violation of Louisiana Revised Statute 33:295, the board has asked our legal counsel, Foley Judell to look into the matter and if necessary, we will seek an opinion from the state attorney general to determine if we are in compliance. If it is found we are in violation, the Authority will immediately divest itself of this investment and place the funds in an appropriate account.*

*The Authority meets again in January, 2003; we will approve both a contract and adopt an investment policy at this time. We will also hopefully have an opinion from Foley Judell. We will inform you immediately when we have an answer.*

Sincerely,

  
Stanley Dameron  
Chairman